



2008 California Volunteer Manual

Form 540

SCHEDULE CA (540) – PART 1 SECTION A

Line 8

Taxable interest income

Enter on line 8, **column B**, interest from column A that your clients received from the following:

- United States savings bonds.
- United States Treasury bills.
- Any other bonds or obligations of the U.S. and its territories.
- Interest income from children.

See FTB Pub 1001, Supplemental Guidelines to California Adjustments, for detailed information.

Enter on line 8, **column C**, interest identified as tax exempt interest on Form 1040, line 8b (or Form 1040A, line 8b), and from the following sources:

- Non-California state bonds.
- Obligations of the District of Columbia issued after December 27, 1973.
- Non-California municipal bonds issued by a county, city, town, or other local government unit.
- Interest from a health savings account.

For additional information for this adjustment, refer to the *General Information Section*.

Line 9

Ordinary Dividends

Generally, make no adjustment on this line. However, certain mutual funds qualify to pay "exempt-interest dividends" if at least 50 percent of their assets consist of tax-exempt government obligations. Find the tax-exempt part of the dividend on your client's annual statement.

If the California exempt-interest amount is more than the federal exempt-interest amount, enter the difference on line 9, **column B**.

Line 10

State tax refund

California does not tax state income tax refunds. Enter in column B the amount of any state tax refund you entered in **column A**.

For additional information about this adjustment, refer to the *General information section*.

Line 11

Alimony received

Only a nonresident alien who received alimony not included in their federal income would make an entry on this line in **column C**. Otherwise, make no adjustment.

Line 12

Business income or loss

Business income or loss adjustment is beyond the scope of the VITA/TCE volunteer program.



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The purpose of this form is to make adjustments to your client's federal adjusted gross income for differences between federal and California income or deductions.

Differences between California and Federal Law for 2008:

California law does not conform to federal law for:

- The student loan interest deduction. The student loan interest deduction is limited by California adjusted gross income.
- The interest earned on Health Savings Accounts (HSA). HSA interest is taxable for California.
- Mortgage Forgiveness Debt Relief Law amounts of indebtedness and debt relief. California limits debt relief to \$250,000 MFJ/RDP, Single, HOH, and qualifying widow(er), and \$125,000 MFS/RDP.

Column A

Enter in column A, lines 7 through 21, the same amounts you entered on the federal Form 1040, lines 7 through 21 (or your clients' federal Form 1040A, line 7 through line 14b).

Columns B & C

Line 7

Wages, Salaries, Tips, etc.

Generally, you will not make any adjustments on this line unless your clients received any of the types of income listed below:

- Ride-sharing benefits.
- Sick pay received under the Federal Insurance Contributions and Railroad Retirement Acts.
- California Qualified Stock Options.
- Employer provided RDP and RDP's dependent health and accident insurance and medical expense reimbursements.

If any of your clients received income from the sources listed above, figure the difference between the taxable amount reported on this line in column A and the taxable amount using California law. Enter the result on line 7, column B.

If any of your clients received income exempted by U.S. tax treaties (unless specifically exempt for state purposes also) and excluded it on their federal return, enter the excluded amount on line 7, column C.



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Line 13

Capital gain or loss

Generally, there is no difference between the amount of capital gain or loss in column A and the amount to report using California law. California taxes long and short term capital gains as regular income. Get *FTB Pub 1001* for more information.

Use Schedule D, *California Gain or Loss Adjustment*, if there are differences from any of the following. Basis amounts resulting from differences between California and federal law in prior years. Gain or loss from stock and bond transactions, installment sale gain from form FTB 3805E, *Installment Sale Income*, gain on sale of personal residence claiming depreciation in a prior year, and capital loss carryover.

If your clients think there is an adjustment, refer them to Franchise Tax Board's toll-free public assistance number, 800.852.5711.

Line 14

Other gains or losses

This is beyond the scope of the VITA/TCE volunteer program.

Line 15

Total IRS Distribution

Generally, make no adjustments on this line. However, there may be significant differences in the taxable amount of a distribution depending on when your client made their contributions to the IRA. Restate the IRA basis for individuals who contributed to an IRA as nonresidents

in prior years (see *FTB Pub 1100*). For additional information on Individual Retirement Accounts, refer to the *General information section* and *FTB Pub 1005*.

Line 16

Total Pensions and annuities

California and federal law generally treat pension and annuity income the same. However, if your client receives tier 2 railroad retirement benefits or partially taxable distributions from a pension, make an adjustment. For additional information about this adjustment, refer to the *General information section* and *FTB Pub 1005*.

Line 17

Rental Real Estate, Royalties, Partnerships, S Corporations and Trusts, etc.

This is beyond the scope of the VITA/TCE volunteer program.

Line 18

Farm income or loss

This is beyond the scope of the VITA/TCE volunteer program.

Line 19

Unemployment compensation

California does not tax unemployment compensation or paid family leave.

Enter the amount of unemployment compensation from line 19, column A on line 19, column B.

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Line 20

Social security benefits

Enter in column B the amount of social security benefits or equivalent tier 1 railroad retirement benefits shown in column A. These amounts can be found either on Form 1040A, line 11b, or Form 1040, line 20b.

Line 21

Other income

Line a - California lottery winnings:

California does not tax California lottery winnings. Enter the amount of California lottery winnings included in the amount on line 21, column A or line 21, column B.



*Do not make an adjustment for lottery winnings from other states. These winnings **are** taxable to California.*

TaxWise Tip:

"X" the box on W2G to exclude CA Lottery winnings from the CA return. This causes TaxWise to automatically deduct the income on Schedule CA, line 21a.

Lines b through e - Disaster loss carryover and net operating loss (NOL):

These adjustments are beyond the scope of the VITA/TCE volunteer program.

Line f - Other (describe):

Include on line f, column B, income that you included in your clients' federal income on Form 1040 from:

- * Beverage container recycling.
- * Rebates from local water agencies, energy agencies, or energy suppliers.
- * Reward from a crime hotline.
- * Compensation for false imprisonment.
- * Cost-share payments received by forest landowners.
- * Grants paid to low income individuals to retrofit or construct buildings.
- * Health Savings Account distributions for unqualified medical expenses.
- * Federal Mortgage Debt Relief in excess of California limits.

Include on line f, column C, foreign earned income or housing exclusion from Form 1040, line 21.

Line 22 - Total income

Add lines 7 through 21f in column B and column C. Enter the totals on line 22.

SCHEDULE CA (540) – PART 1 SECTION B

Use this section of the Schedule CA (540) for adjustments to entries made on the Form 1040, lines 23 through 35. If your clients have no adjustments to income on these lines on their Form 1040, skip to line 34.

Column A

Enter in column A, lines 23 through 35, the same amounts you entered on your clients' federal Form 1040, lines 23 through 35.